

Modification proposal:	<b>Uniform Network Code (UNC) UNC263: Enabling the Assignment of a Partial Quantity of Registered NTS Exit (Flat) Capacity (UNC263), and UNC276: Alternative User Pays approach to enabling the assignment of Partial Quantity of Registered NTS Exit (Flat) Capacity</b>		
Decision:	The Authority <sup>1</sup> directs that UNC263 is rejected and UNC276 is made <sup>2</sup>		
Target audience:	The Joint Office, Parties to the UNC and other interested parties		
Date of publication:	2 March 2010	Implementation Date:	To be confirmed

## Background to the modification proposal

On 19 January 2009 Ofgem approved UNC195AV which introduced reform of the booking arrangements for exit capacity ("exit reform") from the National Transmission System (NTS)<sup>3</sup>. These new exit arrangements are for the use of capacity from 1 October 2012, and the new booking arrangements were implemented on 1 April 2009.

Under the new arrangements, users are registered as holding exit (flat) capacity in any of the following instances:

- The user accepting an offer made by National Grid Gas (NGG) following the user's ad-hoc application for enduring annual exit (flat) capacity;
- NGG accepting an application for enduring annual exit (flat) capacity or annual exit (flat) capacity following any annual application windows;
- NGG entering into an Advanced Reservation of Capacity Agreement (ARCA) with a user to hold enduring annual exit (flat) capacity;
- NGG accepting and allocating bids for daily or daily off-peak exit (flat) capacity.

As part of the new exit arrangements National Grid Gas (NGG) will facilitate the assignment of registered exit (flat) capacity between users. Users can transfer the exit (flat) capacity that they are registered as holding to be registered with other users through the assignment process. Currently, an assignor user<sup>4</sup> and assignee user<sup>5</sup> can only propose to NGG that all the exit (flat) capacity registered with the assignor user be registered with the assignee user. If NGG approves the proposal then the assignor user will cease to be liable for capacity charges in respect of the assigned amount of exit (flat) capacity and the assignee user will be liable for such charges.

It is considered restrictive and not conducive to the efficient use of capacity that users are only able to assign all their exit (flat) capacity and that they are not permitted to assign partial amounts of their registered capacity holdings. This restriction is considered to be detrimental to the efficient use of capacity at interconnectors, storage sites and

<sup>1</sup> The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

<sup>2</sup> This document is notice of the reasons for this decision as required by section 38A of the Gas Act 1986.

<sup>3</sup> See the decision on UNC195AV published on 19 January 2009 on the Joint Office website

[www.gasgovernance.co.uk](http://www.gasgovernance.co.uk).

<sup>4</sup> The assignor user is the user with which the exit (flat) capacity is originally registered. The assignor user assigns their exit (flat) capacity rights to another user such that the exit (flat) capacity is then registered with the other user.

<sup>5</sup> The assignee user is the user which the exit (flat) capacity is proposed to be registered with following the assignment process.

shared supply points as it does not allow the efficient management of capacity between users when an end user customer changes its shipper.

## **The modification proposals**

Both UNC263 and UNC276 propose a mechanism to allow assignor users to assign all or part of their registered enduring annual (flat) capacity and annual exit (flat) capacity, and the relevant portion of any outstanding user commitment<sup>6</sup> associated with the assigned capacity. Both modifications are similar to each other with the main difference being who is responsible for paying implementation costs associated with partial assignment. UNC263 considers these costs should be met by the Transporter while UNC276 proposes levying a fee across all shippers to recoup implementation costs.

Below is a summary of the main aspects of UNC263 with a comparison to UNC276.

### UNC263

The specific details of UNC263 are as follows:

- Assignments of enduring annual exit (flat) capacity will be in perpetuity;
- Assignments of annual exit (flat) capacity will be for the full remaining term of that capacity product;
- The assignee user will incur user commitment associated with the capacity it is assigned plus:
  - If it already holds enduring annual exit (flat) at the exit point which has no associated user commitment, then the total capacity holding following assignment will be subject to a user commitment and the user commitment amount will be increased proportionately;
  - If it already holds enduring annual exit (flat) capacity at the exit point which has associated user commitment, then the total capacity holding following assignment will be subject to user commitment based on the longest remaining of the existing and assigned capacity user commitments and the user commitment amount for the total capacity holding will be on the same basis;
- The assignment will not be permitted where it conflicts with any capacity trade or transfer in place or result in reduced capacity amount available to NGG for existing forward or options contracts (or a lower level of certainty regarding access to NGG to capacity under forward and option contracts).

UNC263 proposes that the transporter bear any implementation costs, as the proposer believes that partial assignment was intended to be introduced at exit reform. The proposer argues NGG received a sum of money for modifications related to exit reform and, as UNC263 remedies an oversight on NGG's behalf, it is reasonable to expect them to be liable for any costs.

### UNC276

UNC276 proposes the same fundamental changes as UNC263 with two differences:

1. All exit (flat) capacity which is subject to a demonstration date<sup>7</sup> will be excluded from the partial assignment process;

---

<sup>6</sup> User commitment is the financial commitment users must make to secure NTS exit capacity

<sup>7</sup> A demonstration date shall be included in any offer to provide capacity if NGG is required to invest in pipeworks or make system reinforcements. The demonstration date is the final date that users are required to

2. The proposal will require any implementation costs to be apportioned amongst all shippers, irrespective of whether or not they intend to use the service.

The proposer of UNC263 stated that it was not their intention to allow the assignment of capacity which is subject to a demonstration date. The additional text within UNC276 is not a substantive difference between both modifications but does provide additional clarity on the capacity affected by this proposal.

UNC276 proposes to levy a one off charge on all users who hold registered exit (Flat) capacity on the 1 October 2012 to cover the implementation costs associated with partial capacity assignment. If UNC276 is implemented prior to September 2010, the user pays charge will be based on users' Initialised Enduring NTS Exit (Flat) Capacity holdings (this is the only NTS Exit (Flat) Capacity that users will be registered as holding for the 1 October 2012). If the modification is implemented after September 2010, but prior to 1 October 2012, the charge will be based on users' Enduring Annual and Annual NTS Exit (Flat) Capacity holdings.

The charge will not apply to Daily NTS Exit (Flat) Capacity or Off-peak Daily NTS Exit (Flat) Capacity, as users will not be registered as holding these products on 1 October 2012.

The one off charge will be calculated using the following formula:

$$\frac{\text{Shipper User NTS Exit (Flat) Capacity Holdings}}{\sum \text{all Shipper Users NTS Exit (Flat) Capacity Holdings}} * \text{Implementation costs}$$

NGG have provided an estimate of the maximum and minimum level of the implementation costs. These are on Rough Order of Magnitude (ROM) costs for xoserve<sup>8</sup> systems development work and the total quantity of NTS Exit (Flat) Capacity Shippers are currently registered as holding for the 1 October 2012. In absolute terms, these costs range from £355K to £685K; based on anticipated capacity holdings, this equates to a one-off charge of between 0.0092p/kWh and 0.01775p/kWh.

### **UNC Panel<sup>9</sup> recommendation**

The Modification Panel met on 19 November 2009 to consider UNC263. Of the ten voting members present, capable of casting ten votes, nine votes were cast in favour of implementing UNC263. Therefore, the Panel recommended implementation of this modification.

The Modification Panel met on 21 January 2010 to consider UNC276. Of the nine voting members present, capable of casting ten votes, ten votes were cast in favour of implementing UNC276.

At the same meeting the Panel then voted on which of the proposals would better facilitate achievement of the relevant objectives. Two votes were cast in favour of implementing UNC276 in preference to UNC263 and five votes were cast in favour of

---

demonstrate to NGG that all relevant consents have been secured and any related construction programme is proceeding to target.

<sup>8</sup> Xoserve are responsible for providing transportation transactional services on behalf of gas transportation network companies to gas Shipper companies.

<sup>9</sup> The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules

implementing UNC263 in preference to UNC276. Therefore, the Panel considered that of the two proposals, UNC263 would best facilitate achievement of the relevant objectives.

### **The Authority's decision**

The Authority has considered the issues raised by both modification proposals and the Final Modification Reports (FMRs) dated 26 January 2010 (UNC263) and 2 February 2010 (UNC276). The Authority has considered and taken into account the responses to the Joint Office's consultations on the modification proposals which are attached to the FMRs<sup>10</sup>. The Authority has concluded that UNC263 should be rejected and that UNC276 should be approved, on the basis that:

1. implementation of either of UNC263 or UNC276 would better facilitate achievement of the relevant objectives of the UNC;
2. of these two options, implementation of UNC276 will best facilitate the achievement of the relevant objectives of the UNC<sup>11</sup>; and
3. directing that the modification be made is consistent with the Authority's principal objective and statutory duties<sup>12</sup>.

### **Reasons for the Authority's decision**

We consider that the allowing users to partially assign their exit (flat) capacity holdings would better facilitate achievement of the relevant objectives below. However we are of the view that UNC276 would better facilitate the achievements of the relevant objectives as compared with UNC263 as the costs of the processes would be more correctly attributed to those parties who benefit from this change.

#### *Relevant Objective (a): the efficient and economic operation of the pipeline system*

At present, assignor users can only assign the whole amount of their exit (flat) capacity holdings. This may discourage Shippers from assigning capacity they do not require to other users leading to unutilised exit (flat) capacity. This is a particular problem if the assignee user then has to purchase additional short term exit capacity.

Respondents to both proposals noted a number of reasons why partial assignment may increase network efficiency. One respondent noted that permitting users to assign partial amounts of their exit (flat) capacity holdings to other system users should lead to a more economic and efficient use of the NTS. Another respondent noted that greater flexibility to manage exit capacity holdings may encourage Shippers to book long term capacity, which would also improve network investment signals that are sent to NGG. The proposals may also avoid users having to signal for incremental exit capacity if their requirements can be met from other users unused exit (flat) capacity holdings. Using spare unused exit (flat) capacity would be a more efficient use of the NTS than building additional capacity and help prevent the creation of redundant capacity. We agree with respondents that the facilitation of partial assignment clarifies the capacity requirements of system users and reduces the risk of capacity sterilisation, thereby contributing to the economic and efficient operation of the pipeline system.

---

<sup>10</sup> UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at [www.gasgovernance.com](http://www.gasgovernance.com)

<sup>11</sup> As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, see: [http://epr.ofgem.gov.uk/document\\_fetch.php?documentid=6547](http://epr.ofgem.gov.uk/document_fetch.php?documentid=6547)

<sup>12</sup>The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Gas Act 1986.

*Relevant Objective (d): so far as consistent with (a) to (c) secure effective competition between Shippers, Suppliers, and/or DNOs*

One respondent noted that current arrangements limit customers to maintaining their current contractual arrangements in terms of quantities supplied, although they can still choose between suppliers. Partial assignment would allow customers to vary their contractual arrangements to meet their requirements. For example, a customer could have a supply contract with a single shipper; however, going forward they may require one shipper to provide base load supply and another to provide peaks. This arrangement is best facilitated by partial assignment of capacity.

Another respondent stated that competition between shippers would be enhanced where they have greater confidence in securing enduring capacity over relatively short timescales to meet their requirements, rather than either having to rely on purchasing short term capacity products that may not be available or having to signal for enduring capacity.

It was noted that partial assignment may be particularly useful in cases where a user supplies several customers with capacity needs that vary over time. It may also be helpful at shared supply points and other Connected System Entry Points (CSEPs), where there may be fewer shippers but this would enable the capacity to be assigned to reflect commercial supply agreements.

We agree that the implementation of this modification will provide customers with greater choice and should enhance competition by allowing suppliers to have greater certainty with respect to meeting the capacity requirements of their customers, thereby better facilitating achievement of this relevant objective.

#### Comparison of UNC263 and UNC276

UNC276 explicitly states that exit (flat) capacity holdings which are subject to a demonstration date will not be eligible for partial assignment. While accepting that UNC263 intended this to be the case, we consider it correct that such capacity holdings are excluded from partial assignment between system users until NGG's requirements on the demonstration date information are provided by the capacity holder.

The main difference between both modifications is whether the Transporter or system users are responsible for incurring the costs associated with implementation of the partial allocation process. Respondents to both the UNC263 and UNC276 consultations note that NGG received funding to implement exit reform. If partial assignment of exit capacity was either intended to be part of exit reform or if it could have been reasonably expected to be part of the exit reform specification, then NGG should be responsible for bearing the implementation costs; if not, the beneficiaries of the modification should pay.

Respondents to the UNC263 consultation state that introducing partial assignment as part of exit reform was discussed during Review Group 166 meetings. A request was made asking for evidence to be provided by shippers to support this position. Although the proposer of UNC195AV confirmed that they had originally intended partial assignment to be part of the specification for offtake reform, it was acknowledged that this aspect was intentionally removed at an early stage due to the perceived complexity of the process. We have also reviewed meeting minutes of Review Group 166 and cannot find any reference to partial assignment explicitly stated as an aim of exit reform.

In the absence of such evidence, we also need to consider whether partial assignment should have been part of the offtake reform specification. Our view is that it is not an essential element of the reforms, and as such, its omission should not be viewed as a fundamental oversight by NGG. This was not a consideration in our decision to accept 195AV and cannot properly be considered to have been included in the works which NGG was allowed funding for as part of the Transmission Price Control Review (TPCR). Therefore, we have decided to reject UNC263.

UNC276 holds exit users responsible for paying 100 per cent of the implementation costs by levying a one off charge on holders of NTS exit (Flat) capacity based on the overall proportion of such capacity they hold on 1 October 2012. We consider UNC276 is correct in identifying exit users as the main beneficiaries from partial assignment. Such users will benefit by being able to access a wider range of exit capacity and have a more sophisticated mechanism for management of their exit capacity holdings.

We do not agree with NGG's statement that it does not gain any benefit from the introduction of this modification. NGG has stated that current processes, such as "Transporting Britain's Energy" (TBE) provides sufficient detail for it to avoid the likelihood of investing unnecessarily in the absence of partial assignment, so this proposal does not contribute to the economic and efficient operation of the network. Our view on the degree of precision of the TBE process has been stated previously; we consider it to be a valuable tool in relation to the prediction of aggregate flow forecasts, but question its ability to precisely predict flows on a nodal basis as it incorporates a degree of subjectivity. We believe that the additional precision from user signals through the partial assignment process will provide significantly better granularity for nodal investment signals than TBE, which in turn should allow NGG to better manage network capacity. In this manner, NGG should be able to benefit financially from their incentives to provide capacity and consumers should benefit through overall lower costs.

NGG also submitted alongside UNC276 a revised copy of the Agency Charging Statement (ACS). The ACS is the charging methodology which outlines the scope and cost of the user pays services which xoserve provide. It has been updated with the inclusion of the partial assignment charge as described above. A separate decision letter will be issued stating the Authority's assessment of the proposed changes to the ACS.

### **Decision notice**

In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority, hereby directs that modification proposal *UNC276: 'Alternative User Pays approach to – UNC Modification proposal 0263 - Enabling the Assignment of a Partial Quantity of Registered NTS Exit (Flat) Capacity'* be made.

As UNC263 and UNC276 are in effect alternative proposals, i.e. the Gas Transporters are not reasonably capable of implementing both, we therefore reject UNC263.

**Stuart Cook**

**Senior Partner - Transmission & Governance**

Signed on behalf of the Authority and authorised for that purpose.